



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

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TREASURER ANGELIDES ANNOUNCES TOUGH NEW REQUIREMENTS FOR INVESTMENT BANKS THAT DO BUSINESS WITH STATE OF CALIFORNIA

*New policy follows last week's landmark Wall Street settlement;
NY's Attorney General Spitzer praises effort to set 'new market standard'*

SACRAMENTO, CA – Treasurer Phil Angelides, acting in the wake of last week's landmark settlement of enforcement actions against 10 large investment banks, imposed tough new requirements today on all investment banks that want to do business with the State of California. Angelides' actions today make California the first state in the nation to apply and expand the tough new reforms of the Wall Street settlement to each investment bank that wants to do business with a state.

The Treasurer's new Investment Protection Standards will protect investors, taxpayers and pensioners by setting new minimum standards for conduct by investment banks. The new rules will apply to the 69 firms eligible to handle the state's bond and note issuance, and the 57 broker/dealer firms eligible to do business with the State's investment fund.

"These new Investment Protection Standards will serve not merely as guidelines but as new threshold requirements for investment bankers that want California's business," Angelides said at a news conference here. "These standards will help put an end to the destructive marketplace abuses that have rocked our nation's financial markets and left taxpayers and investors to pick up the pieces."

"Our message today is simple and clear," the Treasurer added. "If you wish to do business with our State, you must adhere to the highest standards of integrity and disclosure. Our goal in California is to be *the* leading edge in the arena of corporate responsibility."

New York State Attorney General Eliot Spitzer, who led the enforcement action on the Wall Street investment banks, joined today's news conference by telephone, telling reporters that Angelides' Investment Protection Standards "will go a long way to helping restore the confidence of the investing public in Wall Street. I applaud Treasurer Angelides for his actions. Today's announcement is an important first step in ensuring that these reforms become the new market standard."

Today's announcement marks the second time in less than a year that Spitzer and Angelides have come together to propose codes of conduct for the investment banking industry. In July 2002,

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Spitzer, Angelides and the chief investment officers of New York and North Carolina urged investment banks that did business with the three states to adopt a more limited set of principles and guidelines, which were based on an earlier agreement that Spitzer had reached with Merrill Lynch in May 2002.

But Angelides' Investment Protection Standards announced today represent a more sweeping, far-reaching set of mandatory standards, based on the reforms that 10 Wall Street banks agreed to last week, as part of their settlement of enforcement actions with New York State's Spitzer and other state and federal regulatory bodies. The April 28 agreement makes final the settlement in principle reached last December between the regulators and the 10 investment banks.

The 10 banks are: Bear, Stearns & Co. Inc.; Credit Suisse First Boston LLC; Goldman, Sachs & Co.; Lehman Bros. Inc.; J.P. Morgan Securities Inc.; Merrill Lynch, Pierce, Fenner & Smith, Inc.; Morgan Stanley & Co., Inc.; Citigroup Global Markets Inc. f/k/a Salomon Smith Barney Inc.; UBS Warburg LLC; and U.S. Bancorp Piper Jaffray Inc.

The Treasurer's new Investment Protection Standards will require, among other things, that investment banking firms separate entirely their research and investment banking practices, including physical separation and completely separate lines of command, legal and compliance staffs and budgeting. Firms also will be required to create "firewalls" between research and investment banking reasonably designed to prohibit improper communications between the two.

Angelides said the new policy is to take effect immediately, and that investment banks that wish to do business with the State must submit their compliance plans by October 1. Firms must then implement their plans on a timetable consistent with that of the Wall Street settlement.

Eligibility to do business with the Treasurer's Office and the State of California has significant ramifications. As State Treasurer, Angelides manages the State's Pooled Money Investment Account (PMIA), which holds more than \$60 billion in taxpayer funds and, during the last full fiscal year (2001-02), completed 3,181 security purchase transactions worth nearly \$143.3 billion. The Treasurer's Office also selects the investment banks to handle the State's bond and note issuance. In 2002, the Treasurer's Office oversaw the issuance of a record \$32.3 billion in bonds and notes.

In addition, Angelides – because he is State Treasurer -- sits on the governing boards of the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), the nation's biggest and third-largest public pension funds, respectively, with combined assets of \$220 billion. The Treasurer is proposing that CalPERS and CalSTRS also adopt the new Investment Protection Standards.

Attachment: Investment Protection Standards

STATE TREASURER'S OFFICE
INVESTMENT PROTECTION STANDARDS

Effective July 1, 2002, The State Treasurer of California imposed a set of Investment Protection Principles (hereinafter "the Principles") on every financial organization that provides investment-banking services and is retained or utilized by the State of California. The Principles were originally based on the terms of the agreement between Merrill Lynch & Co., Inc. and New York State Attorney General Eliot Spitzer dated May 21, 2002. On April 28, 2003, the New York Attorney General, the Securities and Exchange Commission, the New York Stock Exchange, NASD, and the North American Securities Administrators Association announced a settlement with ten of the nation's largest investment firms (hereinafter "the Global Settlement"), the terms of which significantly reduce the conflicts of interest between Research and Investment Banking (as those terms are defined in the Global Settlement). Accordingly, the State Treasurer has modified Part A of the Principles to incorporate the relevant terms of the Global Settlement and has elevated such Principles to mandatory Standards (hereinafter "the Standards") for all financial organizations, as previously defined by this Office. Effective May 8, 2003, the State Treasurer's Office has adopted as a minimum requirement that all firms doing business with this Office must comply with the Standards. Firms will have until October 1, 2003 to submit policies and plans regarding compliance with the Standards.

The Investment Protection Standards include, but are not limited to, the following:

- Severing the link between compensation for analysts and Investment Banking.
- Completely separating Research and Investment Banking, including physical separation. Research will not report directly or indirectly to or through Investment Banking.**
- Requiring that Research have its own dedicated legal and compliance staff.**
- Requiring firms to create and enforce firewalls reasonably designed to prohibit all communications between Research and Investment Banking.**
- Prohibiting Research from participating in efforts to solicit investment-banking business. Analysts may not participate in "pitches" or Investment Banking sponsored road shows.**
- Prohibiting Investment Banking input into analyst compensation.
- Establishing written criteria (exclusive of Investment Banking input) to be used for compensation decisions.**

-Compensating analysts in significant part based on the quality and accuracy of their work.

-Investment Banking shall have no input into an analyst's evaluation.

-Decisions concerning compensation shall be documented.

-Creating a review committee to approve all research recommendations.

-The review committee will review all changes in ratings, if any, and material changes in price targets, if any, contained in the firm's research reports.

-The review committee will conduct periodic reviews of research reports to determine whether changes in ratings or price targets, if any, should be considered.

-The review committee will monitor the overall quality and accuracy of the firm's research reports.

-Requiring that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination.

-Prohibiting Investment Banking input into company-specific coverage decisions (i.e., whether or not to initiate or terminate coverage of a particular company in research reports furnished by the firm).

-Disclosing in research reports whether the firm has received or is entitled to receive any compensation from a covered company over the past 12 months.

-Each quarter, firms shall publish on their websites a chart showing their analysts' performance, including each analyst's name, ratings, price targets, and earnings per share forecasts for each covered company, as well as an explanation of the firm's rating system.

-Establishing a monitoring process to ensure compliance with the principles.

-Each firm shall conduct an annual review to provide reasonable assurance that the firm is in compliance.

-The State Treasurer's Office reserves the right to request an independent audit or confirmation of compliance with these Standards, and, in the case of those firms party to the Global Settlement, a copy of the report prepared by the Independent Monitor.

Notes: (1) The provisions in **bold** represent new requirements not previously contained in the Investment Protection Principles adopted in July 2002.

(2) Upon approval by the State Treasurer's Office of a firm's plan or policy, these Standards are to be implemented consistent with the timeframes established in the Global Settlement. In submitting plans, a firm may propose a specific alternative method for complying with one or more of the Standards, which will be considered only if such alternative method is consistent with the intent of the Standards and achieves the same substantive objective.